



ESG

April 2023

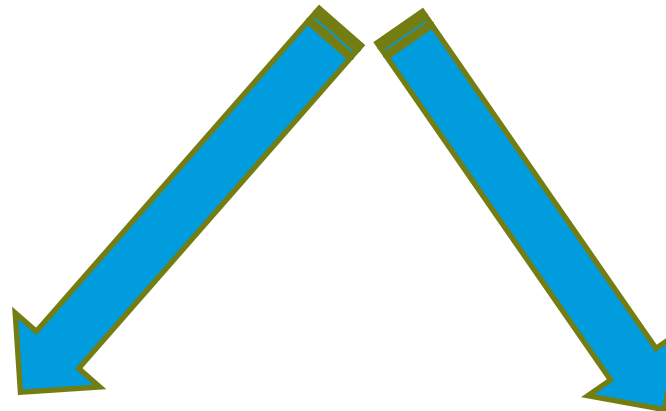
ESRS E1 Climate change

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Global context



Disclosures

Corporate sustainability reporting directive (CSRD)
And ESRS reporting standards
Sustainable Finance Disclosure Regulation (SFDR)
...

Tools

EU Climate benchmark Regulation
...





ESRS 1 – Climate change - Introduction

| | | | | | |
|----------------------|---------------------------------------|--|--|---|---|
| Cross-cutting | ESRS 1 General requirements | ESRS 2 General disclosures | | | |
| Environment | ESRS E1 Climate change | ESRS E2 Pollution | ESRS E3 Water and Marine Resources | ESRS E4 Biodiversity and Ecosystems | ESRS E5 Resource use and circular economy |
| Social | ESRS S1 Own Workforce | ESRS S2 Workers in the value chain | ESRS S3 Affected communities | ESRS S4 Consumers and end-users | |
| Governance | ESRS G1 Business conduct | | | | |

E1 Climate Change:

- 45 pages (disclosure requirements – definitions – application requirements)
- Covers following sustainability matters:
 - Climate change mitigation
 - Climate change adaptation
 - Energy
- Considers other legislation and regulation such as EU Taxonomy, SFDR, ...



ESRS E1 – Climate change

The **objective** of this [draft] Standard is to specify Disclosure Requirements which will enable users of sustainability statements to understand:

- (a) how the undertaking **affects climate change**, in terms of material positive and negative actual and potential impacts;
- (b) the undertaking's **past, current, and future mitigation efforts** in line with the **Paris Agreement** (or an updated international agreement on climate change) and limiting global warming to 1.5°C;
- (c) the **plans and capacity** of the undertaking to **adapt its strategy business model(s)** and in line with the transition to a sustainable economy and to contribute to **limiting global warming to 1.5°C**;
- (d) any other actions taken by the undertaking, and the result of such **actions to prevent, mitigate or remediate** actual or potential negative impacts;
- (e) the **nature, type and extent of the undertaking's material risks and opportunities** arising from the undertaking's impacts and dependencies on climate change, and how the undertaking manages them; and
- (f) the **financial effects on the undertaking over the short-, medium- and long-term time horizons of risks and opportunities** arising from the undertaking's impacts and dependencies on climate change.

MANDATORY STANDARD

12 DISCLOSURE REQUIREMENTS

(qualitative or quantitative information)

4 reporting areas (TCFD pillars)

- **Governance**
- **Strategy**
- **Impact, risk and opportunity (IRO) management**
- **Metrics and targets**

To be read in conjunction with the disclosures required by [draft] ESRS 2 on Chapter 2 Governance, Chapter 3 Strategy and Chapter 4 Impact, risk and opportunity management.



ESRS 1 – Climate change

Governance



1

DR related to GOV-3: Integration of climate change **strategies** and performance in **incentive schemes**

The undertaking shall disclose whether the performance of members of the administrative, management and supervisory bodies has been assessed against the GHG emission reduction targets reported under Disclosure Requirement E1-4.

Strategy



2

E1-1: **Transition plan** for climate change **mitigation**

The undertaking shall disclose its transition plan for climate change mitigation.

- Compatibility between the company's targets & limitation of global warming to 1.5°C
- The identified decarbonization levers identified and key actions planned
- Investments and funding needed
- Qualitative assessment of the potential locked-in GHG emissions
- Conformity with the ***Taxonomy Regulation (EU) 2020/852***
- Any exclusion from the EU Paris-aligned Benchmarks.
- Integration of the transition plan with
 - Overall business strategy
 - Financial planning
 - *Approved by administrative, management and supervisory bodies*
- Progress of implementation

If no transition plan in place, whether/when the company will adopt



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Strategy



3

DR related to SBM 3: Resilience of **strategy and business model**

The undertaking shall describe the resilience of its strategy and business model(s) in relation to climate change.

- The scope of the resilience strategy
- How the resilience analysis has been conducted (including the use of scenario planning)
- The result of the resilience strategy and results from the use of scenario analysis

IRO management



4

E1-2: Policies related to climate change mitigation and adaptation

The undertaking shall disclose the policies it has adopted to manage its material impacts, risks and opportunities related to climate change mitigation and adaptation.

- Aligned with the principles stated in [draft] ESRS 2 DC-P *Policies adopted to manage material sustainability matters*
- Disclose whether and how its policies address the following areas
 - Climate change mitigation;
 - Climate change adaptation;
 - Energy efficiency;
 - Renewable energy deployment; and
 - Other.



ESRS E1 – Climate change

IRO management



5

DR related to IRO-1: Description of **processes to identify and assess** material climate-related impacts, risks and opportunities

The undertaking shall describe the process to identify and assess climate-related impacts, risks and opportunities.

- Impact on climate change (GHG emissions)
- Climate-related physical & transition risks and opportunities
 - Climate scenario
 - Exposure and sensitivity of assets and business activities

Examples of climate-related transition events (examples based on TCFD classification)

| Policy and legal | Technology | Market | Reputation |
|--|---|---------------------------------|--------------------------------|
| Increased pricing of GHG emissions | Substitution of existing products and services with lower emissions options | Changing customer behaviour | Shifts in consumer preferences |
| Enhanced emissions-reporting obligations | Unsuccessful investment in new technologies | Uncertainty in market signals | Stigmatization of sector |
| Mandates on and regulation of existing products and services | Costs of transition to lower emissions technology | Increased cost of raw materials | Increased stakeholder concern |
| Mandates on and regulation of existing production processes | | | Negative stakeholder feedback |
| Exposure to litigation | | | |

| Classification of climate-related hazards (Source: Commission delegated regulation (EU) 2021/2139) | | | | |
|---|--|--|--|--------------------|
| | Temperature-related | Wind-related | Water-related | Solid mass-related |
| Chronic | Changing temperature (air, freshwater, marine water) | Changing wind patterns | Changing precipitation patterns and types (rain, hail, snow/ice) | Coastal erosion |
| | Heat stress | | Precipitation or hydrological variability | Soil degradation |
| | Temperature variability | | Ocean acidification | Soil erosion |
| | Permafrost thawing | | Saline intrusion | Solifluction |
| | | | Sea level rise | |
| | | | Water stress | |
| Acute | Heat wave | Cyclones, hurricanes, typhoons | Drought | Avalanche |
| | Cold wave/frost | Storms (including blizzards, dust, and sandstorms) | Heavy precipitation (rain, hail, snow/ice) | Landslide |
| | Wildfire | Tornado | Flood (coastal, fluvial, pluvial, ground water) | Subsidence |
| | | | Glacial lake outburst | |



ESRS 1 – Climate change

IRO management



6

E1-3: **Action plans** and **resources** in relation to climate change policies and targets

The undertaking shall disclose its climate change mitigation and adaptation actions and the resources allocated for their implementation.

- Aligned with the principles stated in [draft] ESRS 2 DC-A *Actions and resources in relation to material sustainability matters*.
- Per decarbonization lever, listing of the key mitigations action planned
- Include achieved and expected GHG emission reductions
- Significant monetary amounts of CapEX and OpEx required to implement the plan

(+ link with Taxonomy key performance indicators)

(+ link with relevant line items or notes to financial statements)

Metrics and Targets



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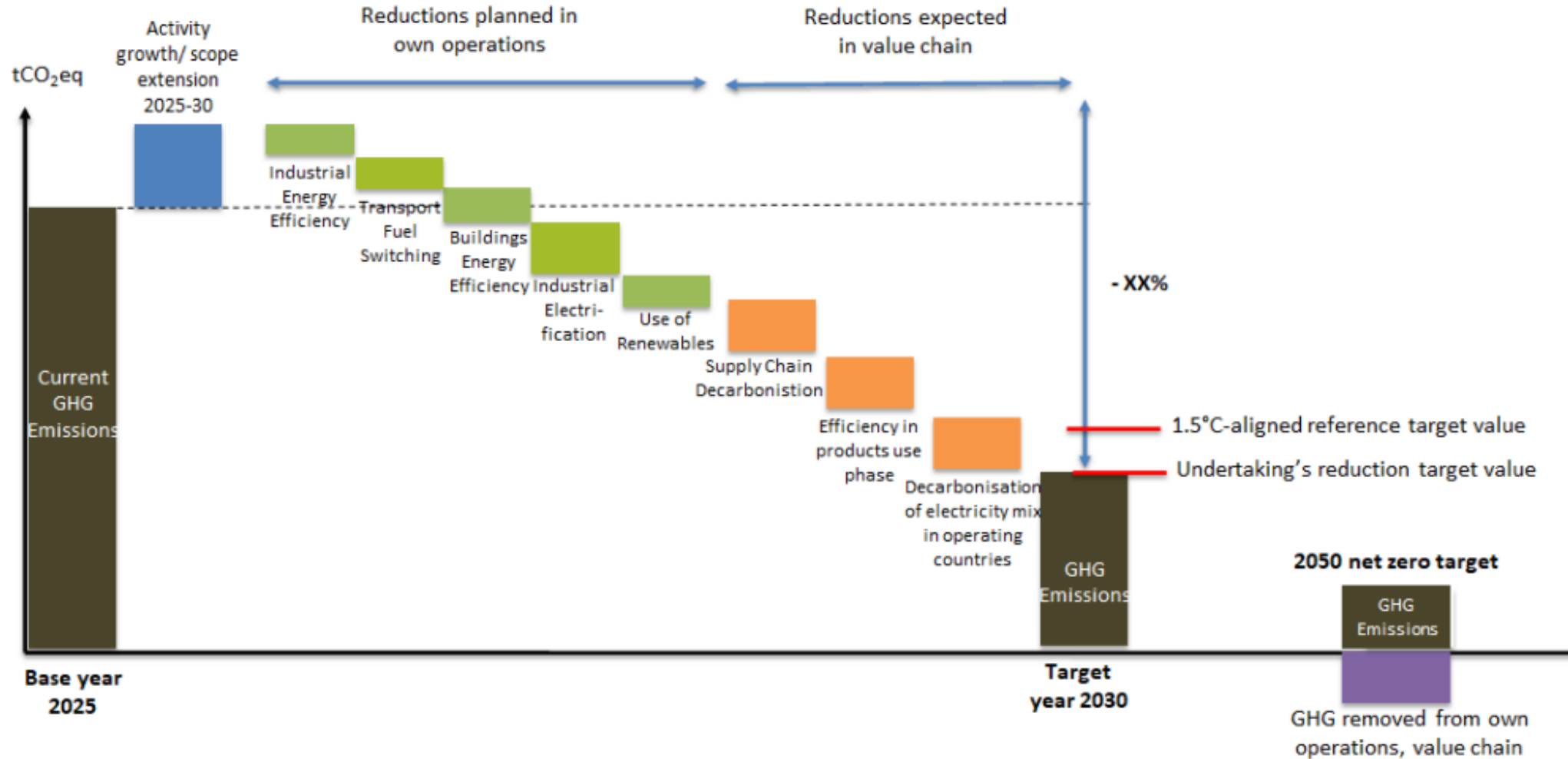
E1-4: **Targets** related to climate change mitigation and adaptation

The undertaking shall disclose the climate-related targets it has adopted.

- Aligned with the principles stated in [draft] ESRS 2 DC-T *Tracking effectiveness of policies and actions through targets*.
- Whether and how GHG emissions reduction targets are set
- GHG emissions reduction targets shall be disclosed
 - Absolute value (and if deemed meaningful, in intensity value)
 - Scope 1, 2 and 3 (not including GHG removal, carbon credits or avoided emissions as a means of achieving reduction targets)
 - Current base year and baseline value
 - Target value for the year 2030 + if available 2050
 - from 2030 onwards, the base year & target updated **every 5 years**
 - Framework or guidance used + if science-based (or not)
 - The expected decarbonization levers and their contribution to achieve the reduction targets.
- Example of GHG emission reduction targets together with its climate change mitigation actions: see next slide



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IRO management



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8

E1-5: Energy consumption and mix

The undertaking shall provide information on its energy consumption and mix.

- Total energy consumption in MWh related to own operations
 - total energy consumption from non-renewable sources for high climate impact sectors disaggregated
 - total energy consumption from renewable sources disaggregated
- Disclose separately its non-renewable energy production and renewable energy production in MWh

The undertaking shall provide information on the energy intensity (total energy consumption per net revenue) associated with activities in high climate impact sectors.



| Energy consumption and mix | Comparative | Year N |
|---|-------------|--------|
| (1) Fuel consumption from coal and coal products (MWh) | | |
| (2) Fuel consumption from crude oil and petroleum products (MWh) | | |
| (3) Fuel consumption from natural gas (MWh) | | |
| (4) Fuel consumption from other non-renewable sources (MWh) | | |
| (5) Consumption from nuclear products (MWh) | | |
| (6) Consumption of purchased or acquired electricity, heat, steam, and cooling from non-renewable sources (MWh) | | |
| (7) Total non-renewable energy consumption (MWh) (calculated as the sum of lines 1 to 6) | | |
| Share of non-renewable sources in total energy consumption (%) | | |
| (8) Fuel consumption for renewable sources (including biomass, biogas, non-fossil fuel waste, renewable hydrogen, etc.) (MWh) | | |
| (9) Consumption of purchased or acquired electricity, heat, steam, and cooling from renewable sources (MWh) | | |
| (10) The consumption of self-generated non-fuel renewable energy (MWh) | | |
| (11) Total renewable energy consumption (MWh) (calculated as the sum of lines 8 to 10) | | |
| Share of renewable sources in total energy consumption (%) | | |
| Total energy consumption (MWh) (calculated as the sum of lines 7 and 11) | | |

Recommended template



ESRS 1 – Climate change

Metrics and Targets



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E1-6: Gross scopes 1, 2, 3 and Total GHG emissions

The undertaking shall disclose its:

- (a) gross **Scope 1** GHG emissions;
- (b) gross **Scope 2** GHG emissions;
- (c) gross **Scope 3** GHG emissions; and
- (d) **total** GHG emissions.

- Explain the organization and operational boundaries applied (link with ESRS 1 section 5.1 Reporting undertaking and value chain)
- Metrics shall include
 - Gross value in metric tonnes of CO₂eq (scope 1, 2 & 3)
 - Market based and location based (scope 2)
 - % from regulated trading schemes (scope 1)
 - All significant scope 3 categories (scope 3)

The undertaking shall disclose its GHG emissions intensity (total GHG emissions per net revenue) + to link with revenue in FS:

| | |
|---|--|
| Net revenue used to calculate GHG intensity | |
| Net revenue (other) | |
| Total net revenue (in financial statements) | |

- Explain the accounting for GHG emissions from its associates, joint ventures, unconsolidated subsidiaries (investment entities) and contractual arrangements in joint arrangements that are not structured through an entity (i.e., jointly controlled operations and assets):

(a) If the undertaking has **operational control**, then include their **full** (Scope 1 and 2) GHG emissions in its reported GHG emissions;

(b) if the undertaking **no operational control**, no inclusion any (Scope 1 and 2) GHG. However, when these entities and contractual arrangements are part of the undertaking's **value chain**, their Scope 1, 2 and 3 GHG emissions shall be accounted for as part of the undertaking's Scope 3 GHG emissions.

- For Scope 1 and Scope 2 emissions disclosed, the undertaking shall **disaggregate the information**, separately disclosing emissions from:

(a) the **consolidated accounting group entities** (i.e., the parent and subsidiaries for which it has financial control) that are subject to full consolidation in the group financial statements;

(b) **associates, joint ventures, unconsolidated subsidiaries, and jointly controlled operations and assets that are not subject to full consolidation** in the group financial statements but for which the undertaking has operational control (i.e., the ability to control the operational activities and relationships).

- Example of mandatory template: see next slide



| | Retrospective | | | Milestones and target years | | | | |
|---|---------------|--------------|---|-----------------------------|------|------|--------|-----------------------------|
| | Base year | Compa-rative | N | % N / N-1 | 2025 | 2030 | (2050) | Annual % target / Base year |
| Scope 1 GHG emissions | | | | | | | | |
| Gross Scope 1 GHG emissions (tCO ₂ eq) | | | | | | | | |
| Percentage of Scope 1 GHG emissions from regulated emission trading schemes (%) | | | | | | | | |
| Scope 2 GHG emissions | | | | | | | | |
| Gross location-based Scope 2 GHG emissions (tCO ₂ eq) | | | | | | | | |
| Gross market-based Scope 2 GHG emissions (tCO ₂ eq) | | | | | | | | |
| Significant scope 3 GHG emissions* | | | | | | | | |
| Total Gross indirect (Scope 3) GHG emissions (tCO ₂ eq) | | | | | | | | |
| Purchased goods and services | | | | | | | | |
| [Optional sub-category: Cloud computing and data centre services | | | | | | | | |
| Capital goods] | | | | | | | | |
| Fuel and energy-related activities | | | | | | | | |
| Upstream leased assets | | | | | | | | |
| Waste generated in operations | | | | | | | | |
| Processing of sold products | | | | | | | | |
| Use of sold products | | | | | | | | |
| End-of-life treatment of sold products | | | | | | | | |
| Downstream leased assets | | | | | | | | |
| Franchises | | | | | | | | |
| Upstream transportation and distribution | | | | | | | | |
| Downstream transportation and distribution | | | | | | | | |
| Business travels | | | | | | | | |
| Employee commuting | | | | | | | | |
| Financial investments | | | | | | | | |
| Total GHG emissions | | | | | | | | |
| Total GHG emissions (location-based) (tCO ₂ eq) | | | | | | | | |
| Total GHG emissions (market-based) (tCO ₂ eq) | | | | | | | | |

ESRS 1 – Climate change



ESRS 1 – Climate change

Metrics and Targets



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E1-7: **GHG removals** and **GHG mitigation projects** financed through carbon credits

The undertaking shall disclose:

- (a) GHG removals and storage from its own operations and its upstream and downstream value chain it may have developed in metric tonnes of CO₂eq; and
- (b) the amount of GHG emission reductions or removals from climate change mitigation projects outside its value chain it has financed through any purchase of carbon credits.

- the total amount in metric tonnes of CO₂eq disaggregated and separately disclosed
- Calculation assumptions, methodologies and frameworks applied
- **Net zero target:** explain the scope, methodologies and frameworks applied and how the residual GHG emissions (after approximately 90-95% of GHG emission reduction) are intended to be neutralised by GHG removals in its own operations and value chain

Metrics and Targets



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E1-8: **Internal carbon pricing**

The undertaking shall disclose whether it applies internal carbon pricing schemes, and if so, how these support its decision making and incentivize the implementation of climate-related policies and targets.

- Type of internal carbon pricing scheme
- The specific scope of application of the carbon pricing schemes
- The carbon prices applied according to the type of scheme and critical assumptions made to determine the prices
- The volume of scope 1, 2 and 3 in metric tonnes of CO₂eq covered by these schemes



ESRS 1 – Climate change

Metrics and Targets



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E1-9: **Potential financial effects** from material physical and transition risks and potential climate-related opportunities

The undertaking shall disclose its

- (a) potential financial effects from material physical risks;
- (b) potential financial effects from material transition risks; and
- (c) potential to pursue material climate-related opportunities.

- The monetary amount and proportion (percentage) of **assets** and **net revenues from its business activities** at material physical and transition risk over the short-, medium- and long-term time horizons.
- The proportion of assets at risk addressed by the climate change adaption & mitigation actions.
- The location of significant assets at material physical risk
- Breakdown of the carrying amount of its real estate assets by energy efficiency classes (for transition risks)
- Liabilities that have to be recognized in financial statements over short-, medium- and long-term time horizon (transition risks)
- The expected cost-saving + potential market size or expected changes to net revenue from climate-related opportunity
- Link/reconcile with relevant line items or notes in the financial statements

- **IMPORTANT:** Currently, there is no commonly accepted methodology to assess or measure how material physical and transition risks may affect the undertaking's future financial position performance. Therefore, the disclosure of these effects will depend on the undertaking's internal methodology and the exercise of significant judgement in determining the inputs, and assumptions needed to quantify their potential financial effects.



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Thank you for your attention

